

Message Text

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FM SECSTATE WASHDC

TO WHITE HOUSE

C O N F I D E N T I A L STATE 149740

WHITE HOUSE PASS TO SECRETARY SIMON ABOARD SAM 86971.

FOLLOWING REPEAT JIDDA 3958 ACTION SECSTATE INFO ABU DHABI
AMMAN BEIRUT BONN BRUSSELS CAIRO DHAHRAN KUWAIT LONDON PARIS
TEHRAN TEL AVIV TOKYO TRIPOLI VIENNA DATED 10 JUL 74

QUOTE

C O N F I D E N T I A L JIDDA 3958

BEIRUT PASS USINT BAGHDAD

E.O.: 11652: GDS

TAGS: ENRG, SA

SUBJ: NEW SAUDI POSITION ON POSTED PRICES AND OIL PRICE
REDUCTIONS

BEGIN SUMMARY: SAUDI HIGHER PETROLEUM COUNCIL HAS DECIDED
THAT SAUDI ARABIA CANNOT BY ITSELF REDUCE POSTED PRICES;
KING INTENDS TO URGE ALL OPEC COUNTRIES TO FREEZE POSTED
PRICES FOR ONE YEAR. SAG WISHES USG SUPPORT WITH OTHER
OPEC COUNTRIES TO REDUCE SELLING PRICE TO CLOSE TO \$7.10 A
BARREL THROUGH AUCTIONS. EXXON AND OTHER STUDIES INDICATE
THAT ALTERNATIVE FUELS ARE CLOSE TO \$10 A BARREL, SIMILAR TO
FIGURES REACHED BY OPEC ACCORDING TO YAMANI. RISE OF SELLING
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PRICE TO THIS LEVEL MIGHT BE AVOIDED IMMEDIATELY BUT CAN

HARDLY BE AVOIDED IN LONG RUN. END SUMMARY.

1. AHMAD ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM, TOLD ME JULY 8 THAT THE SAUDI HIGHER PETROLEUM COUNCIL MET ON JULY 6 TO DISCUSS THE QUITO MEETING AND ITS RESULTS. THEY CONCLUDED THAT THE SAUDI EFFORTS TO REDUCE POSTED PRICES COULD NOT SUCCEED IN THE FACE OF THE DEMAND OF EVERY OTHER OPEC COUNTRY TO RAISE POSTED PRICES (REFTEL).

2. YAMANI SAID THE COMMITTEE NOW PROPOSED TAKING A DIFFERENT LINE; I.E. TO PROPOSE AT THE FALL OPEC MEETING THAT POSTED PRICES BE FROZEN AT PRESENT LEVELS FOR ONE YEAR. KING FAISAL WOULD WRITE LETTERS TO THIS EFFECT TO THE HEADS OF GOVERNMENTS OF ALL THE OPEC COUNTRIES.

3. THE ACTUAL SELLING PRICE WOULD BE SET BY THE LARGE AUCTION WHICH SAUDI ARABIA INTENDS TO HOLD THIS SUMMER. WITH A WORLD SURPLUS PRODUCTION CAPACITY; WITH SUMMER DEMAND LOW, YAMANI THOUGHT THE "MARKET PRICE" COULD BE SEVERAL DOLLARS BELOW THE POSTED PRICES, AND, IN FACT, RELATIVELY LITTLE ABOVE THE AMOUNT TAX PAID CUT OF \$7.10 PER BARREL.

4. YAMANI SAID THE CABINET HAD DECIDED TO DISCUSS THIS WITH ME FIRST, HOWEVER, AND GET THE U.S. GOVERNMENT'S OPINION. IF THE U.S. HAD STRONG FEELINGS AGAINST THE IDEA, IT WOULD BE RECONSIDERED. IF, ON THE OTHER HAND, U.S. GOVERNMENT BELIEVED IT HAD MERIT, THEY WOULD EXPECT USG AND OTHER CONSUMER GOVERNMENTS' SUPPORT WITH THE OTHER OPEC COUNTRIES.

5. I SAID THAT ON FIRST HEARING I WAS NOT TERRIBLY PLEASED. WHILE CONSISTENT OIL PRICES DURING A PERIOD OF RAGING WORLD INFLATION COULD BE CONSIDERED A FORM OF VICTORY, IT STILL DID NOT ANSWER THE QUESTION OF HOW GOVERNMENTS COULD PAY FOR THE CURRENT OIL PRICES. I WOULD PREFER A SHARP DECREASE NOW FOLLOWED BY A SCHEDULED INCREASE IN PRICES OVER THE NEXT TEN YEARS. YAMANI SAID HE WOULD, TOO, BUT THIS DECISION WAS MADE BY THE HIGHER PETROLEUM COUNCIL.

6. IN THE CONVERSATION WITH CLIFTON GARVIN, PRESIDENT OF CONFIDENTIAL

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EXXON, THE SUBJECT OF A "FAIR" PRICE FOR PETROLEUM WAS DISCUSSED AT LENGTH. YAMANI SAID THE SAUDIS HAD DONE CONSIDERABLE STUDIES ON COST OF ALTERNATIVE ENERGY; EXXON SURELY HAD DONE THE SAME, AND THE USG OBVIOUSLY HAD VOLUMINOUS INFORMATION ON THE SUBJECT.

7. I SAID THAT I HAD NO DOUBT WE HAD DONE SUCH STUDIES BUT ALL I HAD SEEN WERE FIGURES SHOWING THAT ELECTRICITY COULD

BE PRODUCED FROM ATOMIC ENERGY AT ABOUT ONE-HALF THE COST
OF ENERGY PRODUCED FROM THERMO-ELECTRICAL PLANTS USING HIGH COST
PETROLEUM.

8. GARVIN SAID THIS SEEMED TO BE TRUE BUT THE QUESTION WAS
HOW MANY SUCH PLANTS COULD BE PRODUCED, AND WHAT WOULD BE
THE COSTS FOR ECOLOGICAL CONTROL. EXXON WAS CONCENTRATING
PRIMARILY ON STRIP-MINED COAL AND ON THE GASIFICATION
AND LIQUEFACTION. SHALE WAS OF MINOR IMPORTANCE. HE SAID HE
THOUGHT A GOOD ROUND FIGURE FOR THE COST OF ALTERNATIVE
ENERGY WOULD BE \$10/BBLs. IN CONSTANT 1974 DOLLARS.

9. YAMANI SAID THIS WAS VERY CLOSE TO THE OPEC FIGURES.
THERE WILL BE VERY LITTLE ANYONE WILL BE ABLE TO DO TO
AVOID RISE IN OIL PRICES TO THIS LEVEL WITHIN THE NEXT
FEW YEARS - OR EVEN WITHIN THE NEXT YEAR IF WE ARE UNWISE
OR UNLUCKY.
AKINS UNQUOTE KISSINGER

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